

MEMORANDUM



TO: Members of the Iowa Senate and
Members of the Iowa House of Representatives

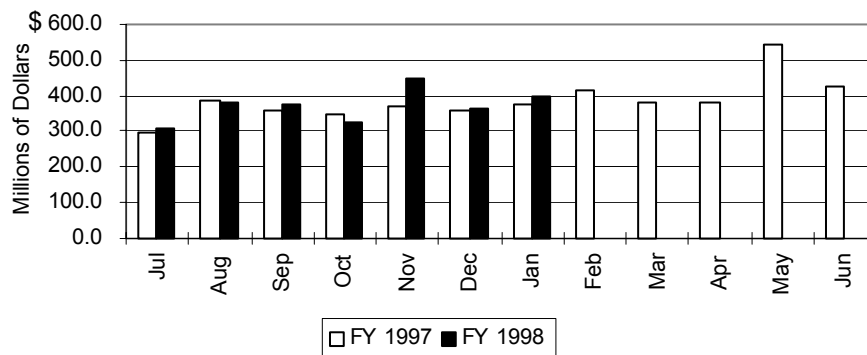
FROM: Dennis C. Prouty

DATE: February 2, 1998

General Fund Receipts Through January 31, 1998

The attached spreadsheet represents total FY 1998 General Fund receipts, with comparable figures for FY 1997. These can be compared to the latest FY 1998 estimate (\$4.785 billion) set by the Revenue Estimating Conference (REC) on November 20, 1997. The estimate represents an increase of \$137.1 million (2.9%) compared to FY 1997. The current FY 1998 REC estimate includes the two major tax reduction bills passed during the 1997 Legislative Session; the 10.0% income tax reduction (HF 388) and the inheritance tax reduction (SF 35) as well as all bills passed during the 1997 Legislative Session.

Monthly General Fund Receipts - FY 1997 v. FY 1998

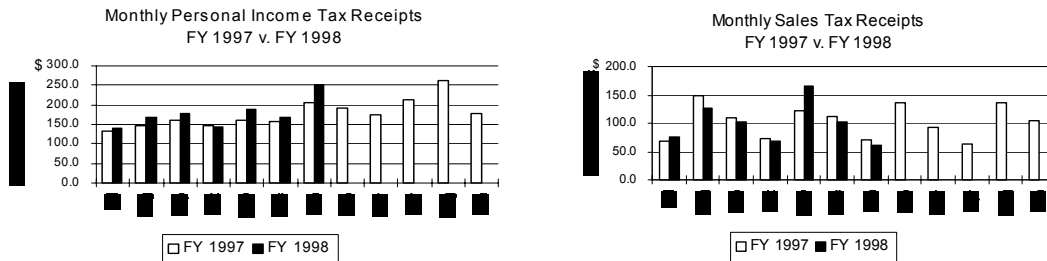


January 1998 Compared to January 1997

Total General Fund receipts collected in January were 5.9% higher compared to January 1997. Special tax receipts showed an increase of 8.7%. Personal income tax receipts increased 23.7%. Sales tax receipts were 13.7% lower than January 1997. Use tax receipts increased 10.7%, and corporate income tax receipts were 35.2% lower than January 1997.

FY 1998 Compared to FY 1997

Year-to-date revenue growth increased by \$108.7 million (4.3%) compared to FY 1997. This is above the current REC estimate of 2.9% for FY 1998. Lower than expected year-to-date revenue growth for sales tax (0.1% v. 5.1% as set by the November REC) has been offset by strong year-to-date growth in personal income tax and use tax.



Gross personal income tax revenues received in January were \$48.4 million (23.7%) higher than January 1997. Year-to-date receipts continue to be strong, with an increase of 11.5% compared to the FY 1997 amount. The primary cause of growth in personal income tax receipts is withholding payments, which are \$79.6 million (8.7%) greater than FY 1997. Estimate payments showed exceptional growth in January, posting a gain of \$41.8 million (57.2%) compared to January 1997. Gains in estimate payments can be attributed to both the strong year in the stock market and the federal capital gains tax rate change. The majority of growth in estimate payments experience year-to-date was included in the November REC estimate.

The REC FY 1998 income tax estimate of \$2.232 billion represents a projected increase of 5.2% compared to FY 1997. As stated earlier, this reflects the 10.0% income tax reduction. The effects of the law change will be evident during February 1998 when the effect of updating withholding tables to reflect the 10.0% tax reduction will be seen in General Fund receipts.

Sales tax receipts in January fell below last year's level by \$9.8 million (13.7%). The change in the method of local-option sales tax payment to local governments is primarily responsible for the weak January performance. As directed by HF 729 (Local Option Taxes Administration Act), the Department of Revenue and Finance began making monthly rather than quarterly distributions. This accounts for approximately \$9.8 million of the decrease in the monthly receipts. Sales tax receipts should increase during the first week of February 1998 when the FY 1997 old quarterly local option payment date is passed. Total year-to-date receipts are \$800,000 (0.1%) above last year's level. The current REC estimate for FY 1998 sales tax receipts is \$1.300 billion, which represents an increase of 5.2% compared to FY 1997.

Corporate income tax receipts in January were \$10.6 million (35.2%) lower than January 1997. Significantly lower estimate payments are the primary cause of lackluster growth, being \$15.1 million (11.0%) less than FY 1997. Year-to-date corporate income tax receipts are \$20.5 million (12.6%) lower than FY 1997.

The November REC projected FY 1998 corporate income tax receipts would total \$300.0 million, a decrease of \$18.8 million (5.9%) compared to FY 1997.

Racing and gaming receipts in January were \$520,000 (17.9%) lower than January 1997. However, the year-to-date growth has resulted in reaching the statutory \$60.0 million cap. The year-to-date gain is equally attributable to receipts generated by riverboats and slot machines.

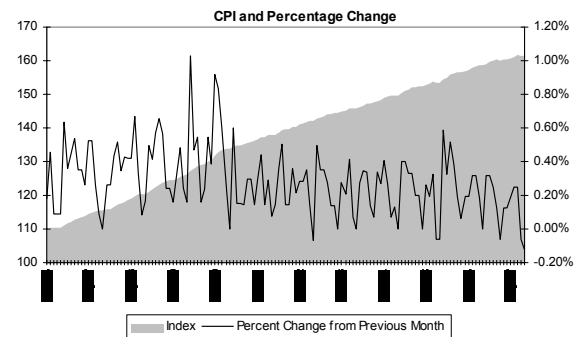
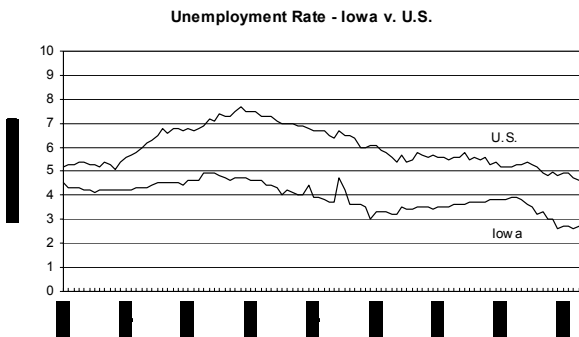
All racing and gaming receipts in excess of \$60.0 million are deposited in the Rebuild Iowa Infrastructure Fund. As a result, activity in these accounts has little direct impact on the General Fund because the receipts have exceeded the \$60.0 million threshold. The November REC estimated that \$72.6 million from this source would be deposited to the Infrastructure Account in FY 1998.

Institutional payments in January were \$5.8 million (74.4%) lower than January 1997. The loss is primarily attributable to the change enacted in HF 715 (Human Services Appropriations Act) that prevents institutional reimbursements at the Glenwood State Hospital-School from being deposited into the General Fund. However, there is a corresponding reduction in appropriations as well from this provision.

Status of the Economy

The seasonally adjusted percent unemployed for the State increased from the 2.7% rate in November to 2.8% in December. The unemployment rate a year ago was 3.6%. Iowa's total December employment registered 1,552,900, up from November's level of 1,537,700 but lower than the March 1997 record high of 1,574,200. The number of unemployed persons in Iowa stood at 45,000 in December, up slightly since the October record low of 41,600 and up from the November total of 42,600. The U.S. unemployment rate in December also increased from November's level of 4.6% to 4.7%.

Consumer prices in December decreased 0.1%. The Consumer Price Index (CPI-U) through December 1997 was 161.3 (1983=100), which is 1.7% higher than one year ago. December is the second consecutive month that the CPI has fallen below the prior month's level. This last occurred during the same two months of 1995. The following series illustrate U.S. and Iowa unemployment comparisons and the CPI through September 1997.



Information related to State General Fund receipts is available electronically through the Fiscal Bureau's Electronic Publishing of Information System (EPI). If you have questions regarding this service, you may contact Glen Dickinson (515-281-4616) or Larry Sigel (515-281-4611).

GENERAL FUND RECEIPTS - FY 1998 vs. FY 1997						ESTIMATED GENERAL FUND RECEIPTS in millions of dollars		
July 1, 1997, through January 31, 1998, in millions of dollars						FY 97 Actual Compared to FY 98 REC Estimate		
	FY 1997		FY 1998		Year to Date	Actual	Estimate	% CHANGE
	\$		\$		% CHANGE	FY 1997	FY 1998	% CHANGE
Personal Income Tax	1,106.0		1,233.3		11.5%	2,123.1	2,232.9	5.2%
Sales Tax	704.1		704.9		0.1%	1,237.4	1,300.0	5.1%
Use Tax	131.7		145.2		10.3%	223.1	245.0	9.8%
Corporate Income Tax	162.3		141.8		-12.6%	318.8	300.0	-5.9%
Inheritance Tax	63.7		65.1		2.2%	109.3	97.2	-11.1%
Insurance Premium Tax	0.1		0.7		600.0%	106.0	110.0	3.8%
Cigarette Tax	56.0		55.0		-1.8%	94.6	97.0	2.6%
Tobacco Tax	3.4		3.7		8.8%	5.7	5.7	-0.2%
Beer Tax	7.6		7.7		1.3%	12.5	12.5	0.2%
Franchise Tax	17.6		19.6		11.4%	35.6	35.6	-0.1%
Miscellaneous Tax	2.2		1.5		-31.8%	1.2	1.0	-16.0%
Total Special Taxes	2,254.7		2,378.5		5.5%	4,267.3	4,436.9	4.0%
Institutional Payments								
Liquor Transfers:	59.3		39.0		-34.2%	104.3	73.1	-29.9%
Profits	16.5		16.5		0.0%	28.8	30.0	4.2%
7% Gross Revenue	5.3		5.3		0.0%	9.0	9.0	0.0%
Interest	10.2		16.9		65.7%	18.0	20.0	11.4%
Fees	37.0		36.2		-2.2%	63.6	64.8	1.9%
Judicial Revenue	20.1		21.4		6.5%	42.9	43.9	2.2%
Miscellaneous Receipts	37.5		30.4		-18.9%	54.0	47.3	-12.3%
Racing and Gaming Receipt	59.7		60.0		0.5%	60.0	60.0	0.0%
TOTAL RECEIPTS	2,500.3		2,604.2		4.2%	4,647.9	4,785.0	2.9%